LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS
200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 6698 | **NOTE PREPARED:** Jan 23, 2007
BILL NUMBER: HB 1619 | **BILL AMENDED:**

SUBJECT: Property tax rates and levies.

FIRST AUTHOR: | **BILL STATUS:**
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State & Local
X **DEDICATED**
FEDERAL

Summary of Legislation: This bill makes conforming amendments to the 2006 law that allows the county auditor to reduce a taxing unit's assessed value used to set property tax rates for the following year to enable the unit to absorb the effects of reduced property tax collections expected to result from successful assessed value appeals. It also sets a civil taxing unit's maximum property tax levy for property taxes payable in 2008 at the amount that would have applied for taxes payable in 2007 if the 2004 change that eliminated unused maximum levy capacity from the determination of the next year's maximum levy had not been enacted, and reverses that change for future years. The bill also corrects cross-references.

Effective Date: Upon passage.

Explanation of State Expenditures: This bill makes conforming amendments to the 2006 law that allows the county auditor to reduce a taxing unit's assessed valued used to set property tax rates for the following year. Under current law, if a county auditor wishes to reduce a taxing unit's certified AV, the DLGF must review the budget, tax rate, and tax levy of the taxing unit. The county auditor would be permitted to appeal to the DLGF to reduce a taxing unit's AV by an amount that exceeds the limit. The DLGF could then require the county auditor to submit supporting information with the county auditor's appeal. The DLGF would be required to consider the appeal and may approve, modify and approve, or reject the amount of the reduction sought. The DLGF also has the authority to revise, reduce, or increase a political subdivision's budget by fund, tax rate, or tax levy which the department reviews.

The following is a list of the conforming amendments:

1. Under this proposal, the DLGF could not certify a taxing unit's budget, tax rate, or tax levy if the DLGF determines that the county auditor has reduced the taxing's unit's AV by more than the amount

authorized.

2. Under current law the DLGF may not increase a political subdivision's budget by fund, tax rate, or tax levy to an amount which exceeds the amount originally fixed by the political subdivision. This proposal authorizes the DLGF to increase the tax rate, tax levy or budget of a political subdivision if it determines that the originally published rates were incorrect or omitted.

3. Under current law, the DLGF is required to give the political subdivision written notice specifying any revision, reduction, or increase the department proposes in a political subdivision's tax levy or tax rate. In turn, the political subdivision has one week from the date the political subdivision receives the notice to reply in writing. This proposal gives the gives the local taxing units two weeks instead of one to respond to the DLGF's notice of a revision in its tax rate or tax levy.

4. This proposal also allows the local taxing units greater leeway in responding to the DLGF concerning a levy or tax rate change. Under current law, the local unit can specify how to make the required reductions in the amount budgeted by fund. This proposal allows local taxing units to include suggestions for budget reductions, reallocation of levies, a revision in the amount of miscellaneous revenues, and a further review of any other item which the local unit believes the DLGF is in error. The DLGF is required to consider the adjustments and then render a final decision to the political subdivision.

5. Under current law, ten or more taxpayers or a taxpayer that owns property that represents at least ten percent of the taxable assessed valuation in the political subdivision, can initiate an appeal from the county board of tax adjustment's action on a political subdivision budget. The DLGF is required to certify its action to the county auditor, the political subdivision, the first ten taxpayers whose names appear on the petition and taxpayers who own 10 percent or more of the taxable assessed valuation in the political subdivision. This proposal requires the DLGF to respond to the taxpayer who initiated the appeal, or, if the appeal was initiated by multiple taxpayers, the first ten taxpayers whose names appear on the statement filed to initiate the appeal.

6. Under current law if the DLGF acts under an appeal initiated by taxpayers, the taxpayer who files the petition may request a judicial review of the final determination of the DLGF. Under this proposal, if the department acts under an appeal initiated by one or more taxpayers and fails to act on the appeal before it certifies its action then a taxpayer who signed the statement to initiate the appeal may request a judicial review.

These provisions may add administrative expenses to the DLGF. However, it is expected the DLGF should be able to cover any additional expenses given its existing resources.

Levy Banking: The state pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school General Fund levies attributable to all property. The state also pays 20% of the portion of operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. Homestead credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences.

Subject to appropriation, if all affected units utilize the entire maximum levy increased that would be allowed under this proposal, the cost of PTRC and Homestead Credits could increase by as much as $35 M in FY 2008 (partial year), $89 M in FY 2009 and $92 M in FY 2010. The actual additional cost could be less than these estimates depending on the actual amount of the property tax levies imposed locally. PTRC and homestead credits are paid from the Property Tax Replacement Fun (PTRF).

Explanation of State Revenues:

Explanation of Local Expenditures: Additional levies will be eligible for local homestead credits in the 48 counties that have adopted a county homestead credit. However, the amount of the credits for CY 2008 and beyond cannot be accurately estimated as it depends on whether affected taxing units increase or decrease their levies. If this provision were to apply to taxing units in CY 2008 and all units increased their levies to the maximum permitted, then for those 48 counties with the homestead credit, the estimated increase in local homestead credit expense would be approximately $10 M.

Explanation of Local Revenues: Under current law, the county auditor may reduce for a calendar year the taxing unit's AV that is certified to the DLGF and used to set tax rates for the taxing unit for taxes first due and payable in the immediately succeeding calendar year. The county auditor may reduce a taxing unit's AV only to enable the taxing unit to absorb the effects of reduced property tax collections in the immediately succeeding year that are expected to result from successful appeals of AV. The amount fo the reduction may not exceed the lesser of 2% of the AV or the total amount of reductions in the AV in the immediately preceding year that resulted from successful appeals. The county auditor may appeal to the DLGF to reduce a taxing unit's AV by an amount that exceed the limits.

The county auditor must keep separately on the tax duplicate the amount of any reductions made. The county auditor must also include in its certified statement to each political subdivision and the DLGF the amount of the political subdivision's AV reduction. The political subdivisions must include in their notice to taxpayers of their estimate budgets, tax rates, and levies, the amount of the political subdivision's certified AV reduction. Under this proposal the DLGF, in addition to the county auditor, may also determine the amount of assessed value of tangible property to be excluded.

The amount of reduction of the AV and the increase in rates is indeterminable and will depend on local action.

Levy Banking: Prior to P.L. 1-2004, school transportation fund and civil unit maximum levies were calculated by applying a growth quotient to the previous year's maximum levy. So, if a unit levied less than the maximum permissible levy, the unit could "bank" the portion of the maximum levy that was the difference between the maximum and the actual and apply this "banked levy" in subsequent years. P.L. 1-2004 eliminated the "banked levy" option by applying the growth quotient to the unit's actual levy. SEA 260 (2006) restored the "banking" of one-half of the previous year's unused levy authority. This bill re-establishes the use of full "levy banking" for civil units.

Under this bill, beginning with taxes payable in CY 2008, civil unit maximum levies would be based on what their maximum levies in pay 2004, 2005, 2006, and 2007 would have been had the maximum levy banking been in effect. This provision would allow units to impose a levy that will be greater than the levy that is available to them under existing statute. The increase in the levy that would result from the proposal will depend on local action. The restoration would not apply to school transportation funds.

Assuming that each taxing unit fully utilizes its CY 2007 maximum levy under current law, the total CY 2008 maximum levy authority for civil units is estimated at $2.9 B. This bill would increase those maximum levies for CY 2008 by about $361 M. Increases were estimated in 723 of 915 township firefighting funds and 1,650 of 2,125 unit-level maximum levies. Overall, 78% of maximum levies would increase.

Each local affected taxing unit would decide whether or not to increase its levy to use all or part of the increase in the limit. Under this proposal, if all maximum levies were fully utilized each year, gross property tax levies would increase by an estimated $361 M in CY 2008, $376 M in CY 2009, and $391 M in CY 2010.

Subject to PTRF appropriation, net levies after PTRC and Homestead Credits are paid would increase by an estimated $274 M in CY 2008, $285 M in CY 2009, and $296 M in CY 2010 if all maximum levies are fully utilized.

The actual increase in net levies could, however, be less than these estimates subject to local levy decisions. The actual increase in net levies could also be greater than these estimates subject to state PTRF appropriations.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: All civil taxing units; County auditors

Information Sources: Local Government Database.

Fiscal Analyst: David Lusan, 317-232-9592.